MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAW4624 – TAX COMPLIANCE

(All Sections / Groups)

9 JUNE 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 15 pages excluding the cover page with **FIVE** (5) Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

All questions are based on the Income Tax Act 1967 (as amended), the Real Property Gains Tax 1976 (as amended), Sales & Service Tax Act 2018 and Stamp Act 1949 (as amended) and legislation passed up to 2019.

QUESTION 1

You are an intern for Morris & Co, an ICAEW Chartered Accountants firm. This firm was founded by Mr Morris in 1980. You have been assigned to handle the payroll for Kenneth Sdn. Bhd. In your review of Kenneth Sdn. Bhd. payroll practices, you discovered that the company has omitted many taxable benefits of its managing director, Mr Kenneth Lee, when filing Form E (form which provides employee's particulars to IRB by employer) to Inland Revenue Board. Upon checking, you found that the omission is under the instruction of Mr Kenneth Lee himself. Kenneth Sdn.Bhd. is a big client to Morris & Co. and Mr Kenneth Lee is a close friend to Mr Morris.

Required:

i) Based on above scenario, is Morris & Co. currently facing any threat(s) to fundamental ethical principles? Discuss. (3 marks)

ii) Suggest the course of actions which should be taken by Morris & Co. in relation to the issue that you have discovered.

(4 marks)
(Total: 7 marks)

QUESTION 2

(a) Popular Manufacturing Sdn. Bhd. (Popular) is a registered manufacturer of taxable goods under Sales Tax Act (STA) 2018. The company imported taxable goods from an independent supplier at a purchase price of RM200,000. The imported goods are subject to import duty of 25%.

The goods were sold to Pentel Sdn. Bhd. (Pentel), the subsidiary of Popular at cost plus the charges as per table below:

	RM
Freight	2,500
General selling and administrative expenses	8,000
Insurance	1,100

Below is the information concerning the transaction dates when sales were made to Pentel:

Date of goods delivered	28 April 2019
Date of invoice issued	1 May 2019
Date of full payment received	15 July 2019

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The sales tax rate applicable to the taxable goods is 10%.

Required:

i) Determine the sale value and sales tax due on Popular's sales to Pentel.
(show all workings) (4 marks)

ii) Determine by when should Popular pay the sales tax to the Royal Malaysian Customs. Is there any implication if Popular remits the sales tax to the authority on 15 October 2019? Explain.
(show all workings) (5 marks)

(b) Marry acquired a residential house located in Ara Damansara, Selangor on 30 November 2019. The acquisition price stated in the sales and purchase agreement amounted to RM950,000. Marry obtained a house loan amounting to RM665,000 to finance the purchase of the house. Marry had acquired several properties before this.

Required:

Compute the total stamp duty payable by Marry to the tax authority in respect of:

i) Purchase of the residential house. (3 marks)
ii) House loan agreement. (2 marks)

(c) By using your own words, explain how the taxable business income being determined under cash basis accounting in UK. (1 mark)

(Total: 15 marks)

QUESTION 3

(a) Terry, a resident in Malaysia, acquired a condominium ('the property') in Melaka. He signed the sales and purchase agreement on 1 June 2016 for RM325,000. He made full payment of the acquisition price on 2 January 2017. He incurred the following expenses incidental to the acquisition.

	RM
Stamp duty	6,320
Legal fee	3,100

In 2017, Terry took a 10-year house loan amounted to RM100,000 with total interest payment of RM16,000 from Public Bank to finance the property, while the balance of the purchase price was settled by using the money withdrawn from his Employee Provident Fund (EPF) second account. He settled his house loan on 30 December 2018.

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Terry renovated his property on 17 February 2017 before he got married. He had spent RM45,000 for renovation. Due to leakage on the property's wall, Terry received compensation from the developer amounted to RM10,000 on 3 April 2017.

In 2019, Terry and his family decided to move out from Melaka due to new employment opportunity in Klang Valley and decided to let go his property. He sold the said property for RM558,000 on 16 June 2019. He incurred valuation fee of RM9,100 and brokerage fee of RM55,800 to facilitate the sales. Terry retained a deposit of RM6,500 which had been forfeited by a prospective buyer earlier.

Required:

With reference to the Real Property Gains Tax (RPGT) Act 1976 (as amended), determine the acquisition date, chargeable gain and RPGT payable to Terry on the disposal of the condominium.

(8 marks)

(b) Joseph Lee, a tax resident, operated three businesses, two in Malaysia and one in Indonesia. The accounts closed on 31 December every year. Due to work stress, he passed away at Pantai Hospital Melaka, Malaysia on 31 August 2019. According to his will, Adrian Tan, a tax resident of Malaysia was appointed as the executor of the estate. Joseph's income and expenditure for the year ended 31 December 2019 were as follows:

	RM
Business 1	
Adjusted income	143,000
Balancing charge	8,800
Capital allowance	31,600
Business 2	
Adjusted loss	(80,000)
Business 3	
Adjusted income (Indonesia)	72,000
Dividend (single tier):	
Received on 2 February 2019	28,042
Interest on fixed deposit from Public Bank Bhd. (credited on 1 November 2019)	4,850
Adjusted rental income per annum from a residential property in Melaka	18,000
Dividend income from Indonesia (remitted to Malaysia on 5 October 2019)	7,900

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Cash contribution to an approved institution on 1 April 2019	3,500
Total annuity payable to Joseph's wife, Lily for year 2019	10,600

Other information:
1. Business 2 ceased operation on 31 December 2019.
2. Joseph' wife Lily is a full-time house wife.
3. Joseph had two children, Roy 15 years old and Rosy 24 years old (married) when he passed away. The child relief is claimed in the return of the deceased.
4. Adrian sold off the business in Indonesia, and remitted RM100,000 into the bank account of Lily on 31 December 2019.

Required:

For the year of assessment 2019, compute the chargeable income of the deceased person and the executor. (10 marks)

Note: Indicate "Nil" for item(s) with no transaction value in correct column (deceased / executor). Show all workings. Round up all figures to the nearest RM.

(c) Mr. Wilson is currently planning for his retirement. He plans to make the following arrangement for his only daughter –Elva, with regards to his property:

- Elva, 18 years old, single and is currently pursuing her accounting degree at Multimedia University, would receive an apartment and rental income derived from the property. Nevertheless, Mr. Wilson will collect the rental income on Elva's behalf and use the money to finance Elva's living expenses throughout her study.

Required:

Explain whether Mr. Wilson will suffer any tax liability after settling his property to Elva. (4 marks)

(Total: 22 marks)

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QUESTION 4

SuperShop Retails Sdn. Bhd. (SSR) is a Malaysian tax resident company, wholly owned by a Malaysian company. SSR has been involved in retail business since 2012. The company closes its accounts to 31 December annually. SSR's statement of profit and loss for its financial year ended 31 December 2019 is as follows:

	Note	RM'000	RM'000
Revenue	1		100,500
Less: Cost of sales	2		(64,800)
Gross profit			35,700
Add: Interest income	3		500
			36,200
Less: Expenses			
Staff cost	4	1,960	
Operating expenses	5	12,100	(14,060)
Profit before tax			22,140
Income tax			(5,314)
Profit after tax			16,826

Notes:

1. Revenue received by SSR includes the commission from concessionaire of RM800,000 (business related).

2. Cost of sales includes of the following:

	RM
Penalty charged by Royal Customs Malaysia (RMC) for late payment of sales tax	120,000
Shipping cost for imported inventories	435,000
Provision for inventory obsolescence	210,000

3. Interest income from the company's investment in Malaysia of RM340,000 and the balance was received from SSR's investment from outside Malaysia.

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4. Staff cost comprises the following:

	RM
Benefits for disabled staff **(note i)**	192,800
Remuneration for other staff	1,060,000
Employee's Provident Fund (EPF) for other staff **(note ii)**	180,200
Insurance **(note iii)**	318,000
Training for other staff **(note iv)**	209,000
	1,960,000

Note (i): SSR hired five new staff with physical disability who are the holders of Persons with Disability (OKU) card. Each of them received a total salary of RM20,000 for the year ended 2019. These benefits are not benefits-in-kind and consist of salary, EPF at 19%, insurance and others.

Note (ii): SSR paid EPF at 17% of staff remuneration.

Note (iii): Included in this item is the key-man insurance under an endowment policy on the life of the sales and marketing managers (the managers are the beneficiary) amounting to RM80,000.

Note (iv): RM100,000 incurred for staff training (approved) as part of the human capital development programme. Another RM24,000 was for non-staff training as part of corporate social responsibility. The balance was for the director's family trip to New Zealand.

5. Operating expenses include the following:

	RM
Donations-in-kind to approved institutions	30,000
Cash donation to approved institutions	436,000
Statutory audit fee	45,800
Depreciation of noncurrent assets	235,000
Rental expenses **(note v)**	860,000
Bad debts written off	155,000
General repairs and maintenance	200,600
Entertainment expenses **(note vi)**	65,000
Foreign exchange loss from acquisition of SSR's inventory (realised)	88,000

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Note (v): Rental expenses consist of the following:

	RM
Lease rental of machinery	18,750
Rental of SSR's office and warehouses	361,250
Rental of shopping mall shops and shop lots	480,000
	860,000

Note (vi): Entertainment expenses comprise of redemption vouchers and free gifts to customers (wholly related to sales).

6. Other information:
SSR entitled to claim capital allowances for the following assets:

	Acquired before 1 January 2019 Acquisition price (RM)	Acquired during the year 2019 Acquisition price (RM)
General machinery	355,000	-
Fixture and fitting	194,000	72,000
Lorries	260,000	95,000
Passenger cars **(note vii)**	60,000	125,000

Note (vii): SSR acquired two cars to be used as passenger cars. The first car, a second-hand car was acquired by cash in July 2017 at the cost of RM60,000. The second car, was a new car purchased on 14 June 2019 at the price of RM125,000 under hire purchase. A deposit of RM12,500 was paid with monthly instalment (inclusive of RM75 interest charge) of RM1,875. The first instalment was paid on 1 July 2019.

Required:

(i) Compute the capital allowances that can be claimed by SuperShop Retails Sdn. Bhd. for the year of assessment 2019.

(4 marks)

(ii) Commencing with the profit before tax figure, compute the chargeable income of SuperShop Retails Sdn. Bhd. for the year of assessment 2019.

Note: You should indicate by the use of the word "nil" for any item referred to in the question for which no adjusting entry needs to be made in the final computation.

(12 marks)

(Total: 16 marks)

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QUESTION 5

(a) Kelly and Martin have been in partnership since 2017 and the business closes its accounts to 31 December annually. Kelly and Martin contributed capital amounting to RM150,000 and RM200,000 and each of them was paid 5% of annual interest on their capital contribution from the partnership. Both of them received the following benefits from partnership:

1. Kelly:
   - A salary and allowances of RM3,000 and RM700 respectively per month.
   - Partnership paid total private expenses incurred for the year of assessment 2019 amounting to RM3,400.
   - Sharing of partnership was 40% of profit or loss.

2. Martin:
   - A salary and allowances of RM2,000 and RM500 respectively per month.
   - Partnership paid total private expenses incurred for the year of assessment 2019 amounting to RM5,000.
   - Sharing of partnership was 60% of profit or loss.

Additional information:

1. The provisional adjusted income for the year ended 31 December 2019 was RM350,000.
2. The capital allowance on the partnership's assets for the year of assessment 2019 was RM70,000.
3. Partnership made cash and in-kind donations amounting to RM15,000 and RM5,000 respectively to Malaysia Cancer Association (an approved institution) on 1 April 2019.
4. During the year of assessment 2019, Kelly received adjusted rental income from her two properties; being RM18,000 from her property in Malaysia and RM36,000 from her property in Singapore.
5. Martin has a sole proprietor business in Malaysia, however, his business incurred loss of RM25,000 for the year of assessment 2019.

Required:

(i) Calculate the divisible income of the partnership under the Income Tax Act 1967 (as amended) for the year of assessment 2019. (3 marks)

(ii) Calculate the total income of Kelly and Martin under the Income Tax Act 1967 (as amended) for the year of assessment 2019. (7 marks)

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(b) Sofea, a tax resident in Malaysia, has been working as a chef in Cyber Hotel since 2012. Sofea is a widow and has three children from her marriage. The eldest daughter is 24 years old, just obtained her degree and currently working as a part-time cashier. The second son is 19 years old and currently pursuing a course in information technology at a public higher education institution. The youngest daughter is 16 years old and has a hearing problem. Her disability was recognised by the Department of Social Welfare. She was sent to Special Secondary School in Shah Alam, Selangor.

During her period of employment, Sofea has been provided with the following benefits by her employer for the year of assessment 2019:

a. A monthly gross salary of RM4,050. She contributed 11% of her monthly salary towards the employees' provident fund (EPF) and the Social Security Organisation (SOCSO) of RM71 per month.
b. Meal allowance of RM200 per month.
c. A shopping voucher of RM200 as a gift for Eid celebration.
d. Free hostel accommodation provided by the employer.
e. Total utility of RM2,520 (the bill was under employer's name) for the year 2019
f. Medical cost of RM6,750 for her treatment in Hospital Putrajaya.
g. Withdrawal of RM12,000 from an unapproved fund (include RM7,000 contributed by the employer) to support her son's educational fee.
h. Employer sponsored trips to Sabah amounting to RM3,000 (all in package) and to Phuket, Thailand amounting to RM4,300 (including RM800 for hotel accommodation).

Other information:

Sofea also operates a catering business. Her business' statement of profit and loss for the year ended 31 December 2019 is as follows:

	RM	**RM**
Revenue		300,000
Less: Cost of purchases		(98,200)
Gross profit		201,800
Less: Total expenses		(123,800)
Profit before taxation		78,000

Total expenses include depreciation of the business' assets amounting to RM22,000 and approved cash donation of RM3,000. The business was eligible to claim capital allowance and balancing allowance of RM25,000 and RM4,000 respectively for the year of assessment 2019. The business also reported a loss of RM36,000 for the year of assessment 2018.

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The details of Sofea's other income and payments for the year ended 2019 are as follows:

- Gross royalty income of RM23,000 received from the sales of her cooking book.
- Adjusted rental income of RM16,500 from a shop lot located in Malaysia which she holds for investment purpose.
- Purchase of a laptop and a smartphone for her children, totalling RM3,600.
- Paid internet subscription bill of RM1,000 per annum. The bill was under her name.
- Medical expenses for her mother and for her youngest daughter (who suffers serious disease) of RM2,800 and RM7,300 respectively.
- Wheelchair for her father (disabled) at the cost of RM1,250.
- Complete medical check-up expense for her brother of RM600.
- Medical insurance for herself and children of RM5,500.
- Zakat of RM3,220 (with a supporting document).

Required:

(i) Calculate the statutory business income for Sofea under the Income Tax Act 1967 (as amended) for the year of assessment 2019. (4 marks)

(ii) Calculate the statutory employment income for Sofea under the Income Tax Act 1967 (as amended) for the year of assessment 2019. (11 marks)

(iii) Calculate the income tax payable by Sofea after taking into account all taxable income, reliefs and rebates available under the Income Tax Act 1967 (as amended) for the year of assessment 2019. (15 marks)

Note: You should indicate by the use of the word 'nil', for any item referred to in the question for which no adjusting entry needs to be made, including any relief or rebate, in the tax computation.

(Total: 40 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2019.**

Chargeable Income (RM)	Calculations (RM)	Tax Rate %	Tax Payable (RM)
0 - 5,000	On the first 2,500 Next 2,500	0 0	0 0
5,000 – 10,000	On the first 5,000 Next 5,000	 1	0 50
10,000 - 20,000	On the first 10,000 Next 10,000	 1	50 100
20,000 - 35,000	On the first 20,000 Next 15,000	 3	150 450
35,000 - 50,000	On the first 35,000 Next 15,000	 8	600 1,200
50,000 - 70,000	On the first 50,000 Next 20,000	 14	1,800 2,800
70,000 - 100,000	On the first 70,000 Next 30,000	 21	4,600 6,300
100,000 - 150,000	On the first 100,000 Next 50,000	 24	10,900 12,000
150,000 - 250,000	On the first 150,000 Next 100,000	 24	22,900 24,000
250,000 - 400,000	On the first 250,000 Next 150,000	 24.5	46,900 36,750
400,000 - 600,000	On the first 400,000 Next 200,000	 25	83,650 50,000
600,000 – 1,000,000	On the first 600,000 Next 400,000	 26	133,650 104,000
Exceeding 1,000,000	On the first 1,000,000 Next ringgit	 28	237,650 .....

Non-resident individuals 28%

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- **Reliefs for the Year of Assessment (YA) 2019.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	1,000

- **Rebates**

Rebates	**RM**
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

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- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	**RM**	**RM**
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

Other benefits	**RM per month**
Household servant	400
Gardener	300
Driver	600

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- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- **Real property gains tax**

  With effect from 1 January 2014 the tax rates that apply depending on the holding period from the date of acquisition of the asset as follows:

Holding Period	Individuals Citizen or Permanent Resident	Non-Citizen or Non-Permanent Resident	Company	Others
Within 3 years	30%	30%	30%	30%
In the 4th year	20%	30%	20%	20%
In the 5th year	15%	30%	15%	15%
Beyond 5 years	5%	10%	10%	5%

- **Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

Continued…

- **Stamp duty**
  Rates of duty under the First Schedule
  Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3

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